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INTERNAL AUDIT DEPARTMENT

Audit No. 2402

June 3, 2004

Members, Board of Supervisors
Hall of Administration Building
10 Civic Center Plaza
Santa Ana, CA 92701

Dear Honorable Members:

We have changed our annual reporting concerning the operation of the Orange County Employee Fraud Hotline to quarterly reporting in order to model a best practice of the Sarbanes-Oxley Act. This report for the period of February 1, 2004 through May 31, 2004 is the third report of the new quarterly schedule. The attached report includes a statistical summary of hotline activities, as well as a brief narrative describing the nature of various categories of cases resolved during the period.

We would like to acknowledge the courtesy and cooperation extended to us by the management of the various County agencies/departments during our Hotline process. As always, I remain available to answer any questions you may have. Please contact me directly or Eli Littner, Deputy Director at (714) 834-5899, or Alan Marcum, Audit Manager at (714) 834-4119 if we can be of assistance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Peter Hughes".

Dr. Peter Hughes, CPA
Director

cc: Members, Audit Oversight Committee
James D. Ruth, County Executive Officer
Darlene J. Bloom, Clerk of the Board of Supervisors
Foreman, Grand Jury

INTERNAL AUDIT DEPARTMENT
Fraud Hotline Activity
For Period
February 1, 2004 – May 31, 2004

REPORT DATE: June 1, 2004

Audit Number #2402

Audit Director:	Dr. Peter Hughes, CPA
Deputy Director:	Eli Littner, CPA
Audit Manager:	Alan Marcum, CPA



INTERNAL AUDIT DEPARTMENT
COUNTY OF ORANGE

Internal Audit Department
Fraud Hotline Activity

Background

The Orange County Employee Fraud Hotline was first established September 1, 1994 and after a short period of inactivity during the bankruptcy, was reinstated May 3, 1996. The purpose of the hotline is to provide a vehicle for County employees to report suspected fraud, misuse of County resources by vendors, contractors, or County employees, and significant violations of County policy. In instances when non-County callers use the hotline, their complaints are also processed. Callers are not required to identify themselves.

The hotline is available for calls twenty-four hours a day, seven days a week. To the extent possible, designated Internal Audit Department staff during business hours will answer the telephone. After hours calls are transferred to an answering machine for review on the following business day.

Statistical Summary

The Internal Audit Department received twenty-one calls during the period. These contacts are categorized by source in **Table 1**.

Table 1	
Allegations	
Source of Contact	
Actionable Calls	8
Referred and Informational Calls	13
Other	0
Total	21

Cases Opened

Cases opened during the period concerned allegations of employee misconduct. When allegations involve issues beyond the jurisdiction of the County of Orange, they are referred to appropriate non-County agencies. Hotline callers alleging welfare fraud are referred to the State Welfare Fraud Hotline. **Table 2** identifies complaint type and the total number of cases opened during the period.

Table 2	
Cases Opened	
Type of Allegations	
Employee Misconduct	8
Welfare Fraud (Referred Out)	8
Non-County (Referred Out)	2
Information Requests (Referred to County Departments)	0
Other	3
Total	21

Cases Closed

During the period eight cases were finalized and closed. One of these cases was opened in 2002, four cases were opened in 2003, and three cases were opened in 2004. As of May 31, 2004, five cases remain active. **Table 3** categorizes the three cases closed during the period.

Table 3	
Cases Closed	
Reason for Closing	
Investigated by County agency/department - Allegation Substantiated	4
Investigated by County agency/department - Allegation Non-Substantiated	3
Insufficient Information	1
Total	8

Case Highlights

In the four cases where the allegations were substantiated, one case dealt with a contractor violating the terms of their contract; one case dealt with the improper use of a County Purchasing Card, one case dealt an employees inattentiveness to work duties and controls over the handling of cash receipts, and the last case had to do with missing tools. In all four cases, appropriate corrective action was taken.